

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

MARKET-DOMINANT PRICE CHANGE

Docket No. R2023-1

**RESPONSES OF THE UNITED STATES POSTAL SERVICE TO  
CHAIRMAN'S INFORMATION REQUEST NO. 3**  
(October 26, 2022)

The United States Postal Service hereby provides its responses Chairman's Information Request No. 3, issued on October 19, 2022. Each question is stated verbatim and is followed by its response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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## Periodicals

1. This question concerns the transition from FSS scheme preparation standards.
  - a. Please confirm that in the September 22, 2022 issue of *Postal Bulletin*,<sup>1</sup> the Postal Service states that effective November 7, 2022, the Postal Service will remove FSS scheme preparation standards. If not confirmed, please explain fully.
  - b. Please confirm that in the July 14, 2022 issue of *Postal Bulletin*,<sup>2</sup> the Postal Service announced extensive changes to labeling lists, effective August 1, 2022, related to the discontinuance of FSS scheme preparation. If not confirmed, please explain fully.
  - c. Please confirm that the changes in labeling lists apply to Periodicals Mail. If not confirmed, please explain fully.
  - d. Please confirm that prior to these changes, Periodicals Mail could be prepared in FSS scheme bundles that combined carrier-route and 5-Digit pieces (as well as other pieces destined for the same FSS scheme). If not confirmed, please explain fully.
  - e. Please confirm that because of the removal of the FSS scheme preparation standards, Periodicals Mail destined for FSS ZIP Codes can no longer be entered in combined carrier-route and 5-Digit bundles and will be required to be entered in carrier-route and 5-Digit bundles separately. If not confirmed, please explain fully.

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<sup>1</sup> United States Postal Service, *Postal Bulletin* No. PB 22607, September 22, 2022, at 5, available at <https://about.usps.com/postal-bulletin/2022/pb22607/pb22607.pdf>.

<sup>2</sup> United States Postal Service, *Postal Bulletin* No. PB 22602, July 14, 2022, at 11-12, available at <https://about.usps.com/postal-bulletin/2022/pb22602/pb22602.pdf>.

- f. Please confirm that by being required to enter as separate bundles carrier-route and 5-Digit mail previously entered in a combined bundle, Periodicals mailers will be required to enter more bundles than when FSS scheme preparation standards were in effect. If not confirmed, please explain fully.

**Response:**

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.
- d. Confirmed.
- e. Partially Confirmed. See explanation in response to 1.f. below.
- f. Partially Confirmed. Yes, in circumstances where a bundle contains both 5-Digit and carrier route rated pieces, mailers would have to enter separate bundles, to maintain the same presort piece rate. There could be a case where mailers would choose to enter one bundle and simply forgo the carrier route piece price. Also, some FSS bundles do not contain both 5-Digit and carrier route rated pieces, therefore no additional bundles would be required.
- Just as introduction of FSS schemes enabled mailers to combine some bundles, the adjustments to this label list will require mailers to choose whether to enter separate bundles to qualify for carrier route piece prices. As such, while this label list change could result in additional bundles, which could result in additional postage for some mailers, other label list changes will result in access to lower postage options. See also the response to question 3(a).

For instance, where bundles were once required to be dropped at individual DDUs on separate pallets to claim a DDU rate, bundles for multiple ZIP Codes may in the future be combined on one pallet and dropped at a single Sortation and Delivery Center (SDC), providing benefits to mailers in terms of reduced transportation, processing, and postage costs. In addition, as carrier routes are adjusted, the number of delivery points per route can change. In instances with more delivery points per route, mailers may be able to enter fewer, larger individual bundles for the consolidated routes than when more routes were needed to cover the same number of delivery points.

The Postal Service continually seeks to optimize mail preparation standards to fully capture efficiencies resulting from enhancements to the mail processing network, adaptation of new technologies, and to respond to the changes in customer usage of postal services. As operations adjusts processing schemes, labelling lists could add additional 5-Digit ZIP Codes to a 5-Digit scheme. For example, adoption of piece sorting technologies with expanded bin capacity enables the Postal Service to process multiple zones on the same machine run (processing scheme), which reduces the number of bundles and/or trays to be handled.

Making changes to the preparation standards and label lists is the mechanism through which the makeup of mail presented to the Postal Service evolves to adapt to an ever-changing mail processing environment. All else equal, these changes often will make it easier for mailers to qualify for lower postage.

2. Please refer to Docket No. N2022-2, Library Reference USPS-LR-N2022-2/4, September 22, 2022 (the public response to interrogatory PR/USPS-T-2/1b). Please refer to the document entitled “Flat Industry Force-Field Analysis” at 2 entitled “Transitioning from FSS to Non FSS Bundles.”
  - a. Please confirm that among the “Negative Impacts” to the Flat industry listed is “Increase production cost because of more bundles.”
  - b. Please explain fully why “Transitioning from FSS to Non FSS Bundles” results in “[i]ncrease[d] production cost because of more bundles.”
  - c. Please confirm that among the “Negative Impacts” to the Flat industry listed is “Periodical postage increase.”
  - d. Please explain fully why “Transitioning from FSS to Non FSS Bundles” results in a “Periodical postage increase.”
  - e. Please provide all Postal Service forecasts, estimates, and analyses of the additional volume of Periodicals Outside County bundles resulting from “Transitioning from FSS to Non FSS Bundles.”
  - f. Please provide all Postal Service forecasts, estimates, and analyses of the additional Periodicals Outside County postage resulting from “Transitioning from FSS to Non FSS Bundles.”

**Response:**

- a. Confirmed.
- b. Transitioning from FSS to Non FSS bundles requires mailers to create separate bundles for carrier-route pieces, 5-Digit pieces, and other pieces that were previously destined for the same FSS scheme to maintain the previously claimed

presort price. Naturally, creation of additional bundles may create a marginal increase in labor and materials. However, the increased production cost will be mitigated as fewer containers will be created. Currently FSS scheme pallets are required to be produced at 250 pounds. With the elimination of FSS prep, some of the mail previously prepared in FSS scheme pallets will migrate to existing SCF pallets which could reduce production and postage costs. Additionally, as explained in Response 1.f., when understood in the context of other related operational changes, mailers will likely also realize additional efficiencies that will mitigate potential increases due to adjustments to the FSS label list.

- c. Confirmed. One of the risks mailers identified was a potential for higher postage due to increased number of bundles. However, there is also a potential to reduce container postage due to the elimination of FSS container requirements and other operational efficiencies such as consolidation of multiple DDUs into a single Sortation and Delivery Center (SDC).
- d. If FSS bundles are split into carrier route, 5-Digit, or other presort levels, Periodical mailers will be charged separate bundle prices whereas under the previous FSS scheme they could have combined and paid a single bundle price while maintaining the lowest presort piece price. Again, the increase in postage due to increased bundles could be partially offset by the reduction in container postage due to the elimination of FSS container requirements and other operational efficiencies such as consolidation of multiple DDUs into a single SDC.
- e. The Postal Service does not expect additional volume of Periodicals Outside County bundles resulting from "Transitioning from FSS to Non FSS Bundles." The number of pieces will not be affected. The number of bundles may increase as the FSS bundles are split. However, the total number of Periodical pieces is

not expected to increase due to the “Transitioning from FSS to Non FSS Bundles,” accomplished by modifications to the FSS scheme label list.

- f. Due to file size, the requested files have been uploaded through the Electronic Large File System (ELFS). The Package Quantity (PQT) file of the Mail.Dat verification files contains volume data for FSS bundles by carrier route or 5-Digit zone. This information is used to simulate the mail preparation of FSS bundles in the absence of FSS prep requirements. Mail.dat files for Q1FY22-Q3FY22 are used to simulate the preparation of mail in bundles FSS bundles without the FSS preparation requirements. Excel workbook Per\_Bundles\_ChIR\_f2\_Original.xlsx presents the Periodicals Mail.dat files controlled to hybrid year volumes (Q4FY21-Q3FY22) under FSS prep and Excel workbook Excel workbook Per\_Bundles\_ChIR\_f2\_Simulation.xlsx presents simulated bundle preparation without FSS preparation. This analysis suggests that, on average, FSS bundles will expand to 2.097 carrier route or 5-Digit bundles. The analysis does not attempt to estimate the reduction in number of containers due to no longer being required to make an FSS pallet at 250 pounds.

3. Please refer to the Notice at 23-24, which discusses the Periodicals billing determinants adjustments that the Postal Service made in calculating the magnitude of the Periodicals rate increase and Library Reference USPS-LR-R2023-1/3, October 7, 2022.
  - a. Please confirm that the Postal Service did not make any adjustments to the Periodicals billing determinants used to calculate revenue at new prices in Library Reference USPS-LR-R2023-1/3 to reflect the transitioning from FSS to Non FSS bundles. If not confirmed, please explain fully.
  - b. Please provide a revised version of Library Reference USPS-LR-R2023-1/3 that incorporates adjustments to the Periodicals billing determinants used to calculate revenue at new prices to account for the *de facto* rate increase resulting from the transitioning from FSS to Non FSS bundles.

**Response:**

- a. Confirmed. The Postal Service routinely makes changes to labelling lists as operational needs and facility changes dictate in order to provide more effective and efficient services. These changes can be minor, with only a few changes, or can be more robust, as was the case with the recent modification to the FSS scheme label list. In fact, the FSS scheme label list itself was continually evolving, having been adjusted numerous times since inception. As example, the 08/2017 L006 list contained 2,654 5-Digit zones; the 05/2019 list increased to 2,736 zones; the 02/2020 list increased to 2,772 zones; the 10/2020 list decreased to 2,606 zones; the 04/2021 version decreased to 2,583 zones; and the 05/2022 version decreased to 2,456 zones. In all cases, such changes were not typically considered as constituting classification changes that redefine rate cells



within the meaning of 39 C.F.R. § 3030.128(b), and thus have not typically triggered adjustments to billing determinants. It would be especially unfair to require billing-determinant adjustments in this case, because the Postal Service did not make analogous adjustments when the FSS scheme was originally implemented or periodically adjusted, even when the number of bundles mailers were then required to enter was reduced.

Moreover, the Postal Service historically has not adjusted billing determinants as a result of labelling list changes, even where such changes would have hypothetically inured to the benefit of the Postal Service in the form of increased price-cap authority, as typically would have been the case with most labelling list changes. As further example, in FY13 the Postal Service introduced a 5-Digit scheme (L012) for letters. This change resulted in FCM Presort 5-Digit Auto letters changing from 51.9% of FCM Presort in FY12 to 59.5% in FY14. In Standard (Marketing Mail) the 5-Digit auto share moved from 57.1% in FY12 to 66.0 percent in FY14. No adjustment to billing determinants were made to reflect these changes. If they had, they would have led to additional cap space (i.e., greater pricing authority). If forced to make such concessions going forward, even if the result in this specific instance would be a marginal reduction in cap space, the most common overall result will be greater pricing authority generally.

There are several other reasons for not adjusting billing determinants in this instance as well. As the Postal Service in the future will allow drop shipping to SDCs with more mail carriers than at a single DDU, mailers may enter more bundles on pallets designated for a SDC than at multiple DDUs, reducing the number of pallets and thereby costs. As SDCs will serve multiple 5-Digits, additional pieces will be able to qualify for a lower priced 5-Digit scheme container. Moreover, for routes that get

consolidated and contain more delivery points, more mail pieces can be prepared for these routes, reducing the number of bundles and mailer costs.

- b. Revised version of Library Reference USPS-LR-R2023-1/3 incorporating requested hypothetical adjustments to the Periodicals billing determinants attached. The billing determinants do not incorporate a reduction in number of containers due to no longer being required to make an FSS pallet at 250 pounds.